



Municipal Service Reviews

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Municipal Service Reviews – A Regional Look at Future Growth

Introduction

State officials in recent years have wrestled with the growing dilemma of how to plan for California's projected population increase of eleven million by 2020. More accurately, the state Legislature has been schizophrenically trying to figure out how to plan for the future housing, governance, and service needs of these eleven million future California residents while balancing a host of related, and interrelated, social and economic policy issues. Such policy issues include the state's affordable housing shortfall, diminishing water supplies, environmental quality issues, rising transportation demands, the growing need to protect agricultural and open space lands, rapidly aging infrastructure, and, most recently and importantly, the rapid loss of available local and state revenues and alternative funding sources to plan for California's growing population and future governance and service needs.

To help better address California's future growth and service needs, the Legislature has turned to LAFCOs for a different perspective that looks more regionally at growth and a unique perspective and ability to examine the form, function, and structure of local governments. In 2000, the Legislature passed a bill that introduced a new mandate and power to LAFCOs in the form of special studies, called "municipal service reviews" (or "MSRs"), designed to regionally examine and address California's future growth and municipal service and infrastructure needs over the next 15 to 20 years.

The following report provides an overview and discussion of:

- The background and origin of MSRs
- The MSR law and its statutory requirements
- The legislative purpose and intent of MSRs
- Previous Commission direction on MSRs, including the establishment of the LAFCO Municipal Service Review Committee



- “Guiding principles” and a high-level vision for Orange County LAFCO’s MSR program
- A strategic, programmatic approach to MSRs based on “guiding principles”

MSR Background and Origin

In 1997, the Legislature created a “blue ribbon” commission to comprehensively study and make recommendations to the Legislature on local government reform in California to address the state’s continually accelerating growth patterns. Given the breadth of its scope, that commission, the Commission on Local Governance for the 21st Century (CLG21), recognized the importance of LAFCO’s role in guiding and shaping where and how future growth and development occurs in California. The CLG21 focused the majority of its attention and resources on LAFCO and LAFCO’s governing law, the Cortese-Knox Local Government Reorganization Act of 1985.

In 1998 and 1999, the CLG21 held multiple public hearings and received public testimony from a variety of local government and private stakeholders on the function, practices, and policies of LAFCOs. The result was a comprehensive final report, *Growth within Bounds: Report of the Commission on Local Governance for the 21st Century*, which outlined 65 total recommendations to the Legislature on various statutory changes to the LAFCO statutes and other related land use laws. In 2000, the father of the CLG21, former Assembly Speaker Hertzberg, authored Assembly Bill 2838 which served as the vehicle for the recommendations of the CLG21. The Legislature passed AB 2838 (Chapter 761, Statutes of 2000), rewriting LAFCO’s enabling act as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (“CKH Act”).

In summary, AB 2838 sought to make LAFCO more effective and better equipped to influence where and how growth occurs in California by:

- Requiring all LAFCOs to be independent of their county governments for staffing, facilities, and budgeting.
- Requiring each category of LAFCO’s beneficiaries – county, cities, and special districts – to equally share in the funding of LAFCO’s budgetary costs.
- Comprehensively rewriting LAFCO’s governing law in a clear, concise, and comprehensible manner.
- ***Requiring LAFCOs to conduct comprehensive, regional studies of municipal services (“municipal service reviews”) every five years in conjunction with the review of city and special district spheres of influence.***



MSR Law and Statutory Requirements

Government Code Sections 56425 and 56430 set forth the procedural requirements for conducting sphere of influence updates and municipal service reviews. Section 56425 requires LAFCO to conduct periodic reviews of each agency's sphere of influence every five years. Section 56430 requires LAFCO to conduct municipal service reviews ("MSRs") in preparation of these periodic sphere reviews. See below excerpt of Section 56430.

GOVERNMENT CODE SECTION 56430 MUNICIPAL SERVICE REVIEWS

56430. (a) In order to prepare and to update spheres of influence in accordance with Section 56425, the commission shall conduct a service review of the municipal services provided in the county or other appropriate area designated by the commission. The commission shall include in the area designated for service review the county, the region, the subregion, or any other geographic area as is appropriate for an analysis of the service or services to be reviewed, and shall prepare a written statement of its determinations with respect to each of the following:

- (1) Infrastructure needs or deficiencies.
- (2) Growth and population projections for the affected area.
- (3) Financing constraints and opportunities.
- (4) Cost avoidance opportunities.
- (5) Opportunities for rate restructuring.
- (6) Opportunities for shared facilities.
- (7) Government structure options, including advantages and disadvantages of consolidation or reorganization of service providers.
- (8) Evaluation of management efficiencies.
- (9) Local accountability and governance.

(b) In conducting a service review, the commission shall comprehensively review all of the agencies that provide the identified service or services within the designated geographic area.

(c) The commission shall conduct a service review before, or in conjunction with, but no later than the time it is considering an action to establish a sphere of influence in accordance with Section 56425 or Section 56426.5 or to update a sphere of influence pursuant to Section 56425.

(d) Not later than July 1, 2001, the Office of Planning and Research, in consultation with commissions, the California Association of Local Agency Formation Commissions, and other local governments, shall prepare guidelines for the service reviews to be conducted by commissions pursuant to this section.



The What

Section 56430 requires that “in order to prepare and to update spheres of influence in accordance with Section 56425, the commission shall conduct a service review of the municipal services provided in the county or other appropriate area designated by the commission.” The language does not define what specific municipal services are to be studied as part of the MSRs. LAFCO is, therefore, afforded some flexibility in how to proceed with the MSRs, including the identification and prioritization of the specific municipal service issues it will explore and study in the MSRs. The language is clear, however, in that LAFCO is required to “prepare a written statement of its determinations” on nine different criteria. These nine determinations are intended to establish an informational framework and baseline for updating the spheres of influence of the agencies involved in the MSRs.

In summary, MSRs are required to result in two mandatory outputs:

1. Nine determinations about present and future opportunities, constraints, and needs.
2. Recommendations and determinations on sphere of influence updates.

The How

Section 56430 also sets forth how LAFCO should conduct MSRs. Section 56430 requires that “the commission shall include in the area designated for service review the county, the region, the subregion, or any other geographic area as is appropriate for an analysis of the service or services to be reviewed.” The language provides LAFCO the discretion to set criteria for determining the geographic scope of each municipal service review. The MSR law also provides flexibility to LAFCO to develop and implement its own strategic approach to the MSRs.

Section 56430 refers to the Governor’s Office of Planning and Research (“OPR”) preparing directory guidelines for MSRs. These guidelines were initially intended to provide additional guidance to LAFCOs for MSRs following the enactment of AB 2838. It has been two years since the MSR law took effect, however, and the guidelines are still not finalized. Most LAFCOs, including Orange County LAFCO, have begun to implement MSRs through locally developed guidelines tailored to local conditions.

Legislative Purpose and Intent of MSRs

Prior to AB 2838, the tools and powers available to LAFCOs to affect urban growth and service patterns were limited to government boundary changes and spheres of influence. The effectiveness of spheres of influence was often questioned because of the



limited scope they offered when reviewed on an agency-by-agency basis. The effectiveness of spheres was also questioned as affected agencies and stakeholders often did not see value in spheres as enforceable planning tools for future growth and the timely extension of municipal services and infrastructure. When MSRs were crafted and written into law by the CLG21 and the Legislature, their purpose and intent was to act as tools to more comprehensively and regionally address future growth and service and infrastructure needs. Rather than review spheres of influence one agency at a time, MSRs are intended to be conducted at regional and subregional levels, and used as a vehicle for engaging multiple service providers and stakeholders of a particular municipal service to facilitate the sharing of information and the identification of joint opportunities for regional collaboration to address common municipal service and infrastructure issues in that region.

Prior Commission Direction on MSRs and the LAFCO MSR Committee

At last year's 2002 Annual Strategic Planning Session, the Commission ranked MSRs as a high priority project for 2002 and established a Committee of four Commissioners to provide guidance and assistance to staff in developing local policies and procedural guidelines for MSRs. During 2002, staff worked closely with the MSR Committee and a team of professional consultants to develop a high-level vision and strategic approach to MSRs in Orange County. To establish some high-level goals for the MSRs, the Committee's first task was the development of a set of "guiding principles" for the MSR program.

Guiding Principles and a High-Level Vision for Orange County LAFCO's MSR Program

To establish a high-level vision and provide policy direction for the MSRs, the MSR Committee and staff developed the following "guiding principles":

- MSRs should be **future-oriented** studies that address future growth and municipal service and infrastructure needs and opportunities over the next 15 to 20 years.
- MSRs should be **valuable to the stakeholders and the public as the ultimate end-users** of the studies.
- MSRs should be conducted through an **open and inclusive process**.



Strategic, Programmatic Approach

Based on the guiding principles, LAFCO staff and a team of professional consultants have been working with the MSR Committee to conceptually develop a strategic and programmatic approach to conducting MSRs in Orange County. Staff believes that conducting MSRs regionally and sub-regionally through this programmatic approach will provide valuable and future-oriented results to LAFCO, the stakeholders, and the public, and provide the Commission important opportunities for cost-containment within the process.

Cost-Containment

Rather than dedicating significant staff and consultant time and resources to conduct sphere of influence updates and municipal service reviews one-by-one for more than seventy separate service providers in the County, the strategic approach will establish a programmatic stakeholder-driven study process for conducting six or more regional MSRs that will cover all of those seventy service providers. The proposed two-tiered approach will also provide additional cost-containment opportunities. Tier One will provide high-level recommendations and determinations on spheres of influence and identify opportunities for further collaboration and study by the stakeholders. Based on those recommendations and determinations, the stakeholders within an MSR region may choose to independently initiate and fund further in-depth studies, such as reorganization studies, in Tier Two.

The strategic, programmatic approach consists of the following two-tiered program.

A. TIER ONE: HIGH-LEVEL VISIONING

1. Phase One – Stakeholder Interviews
2. Phase Two – Prototype MSR
3. Phase Three – Evaluation of Prototype MSR and Revision of MSR Process
4. Phase Four – Implementation of Final MSR Process

B. TIER TWO: STAKEHOLDER-INITIATED AND FUNDED STUDIES

TIER ONE: HIGH-LEVEL VISIONING

Tier One consists of four phases designed to promote high-level collaboration and coordination with and among key public and private stakeholders within designated MSR regions. In Tier One, LAFCO and the MSR consulting team will work closely with stakeholder groups to identify opportunities and constraints for how future growth will



affect the quality and level of municipal services and infrastructure systems within the selected MSR regions.

Phase One – Stakeholder Interviews

To help the Commission identify key municipal service and infrastructure issues in Orange County, the first phase of the MSR program will consist of a series of interviews with various stakeholders in Orange County that represent a variety of professional backgrounds from both the public and private sectors, including:

- Elected Officials (county, cities, special districts)
- Education
- Information Providers
- Environmental Groups
- City and County Municipal Government
- Utilities (public works, special districts)
- Public Safety
- Influencers

From these interviews, LAFCO will seek to draw preliminary conclusions about growth, service, and infrastructure issues in Orange County commonly identified and discussed by the stakeholders themselves. Those conclusions will provide guidance to LAFCO for:

- Developing a future-oriented and open and inclusive MSR process that is valuable to the stakeholders and the public as the ultimate end-users of the MSRs.
- Establishing a general set of baseline issues for the MSRs.
- Developing criteria for selecting a region to serve as a “prototype” for the initial implementation of the MSRs.
- Developing criteria for evaluating the MSR Prototype and revising the MSR process.
- Developing criteria for the selection and establishment of six or more regions and subregions for implementation of the MSRs, and criteria for the prioritization of those regions and subregions.



To encourage open and candid responses and discussions from the stakeholder interviewees, LAFCO staff will not directly participate in the interview process. Also, the identity of the interviewees will be disassociated from the interview responses and findings. A team of consultants will schedule and conduct all interviews without LAFCO staff involvement. Upon completion of the interview process, the consulting team will prepare and submit a consultant report to LAFCO that will consist of the team's findings, analysis of findings, and recommendations on the action items described in the above outline.

Phase Two – Prototype MSR

Based on the findings and conclusions from the Phase One interviews, LAFCO and the MSR consulting team will finalize the design and development of the MSR process. That process will then be implemented in Phase Two through an initial “Prototype MSR.” Based on recommendations and criteria presented in the Phase One consultant report, LAFCO will select a region or subregion for which it will implement the “Prototype MSR.”

Staff and the MSR consulting team have identified key components of the MSR and prototype processes necessary for the successful implementation of an open and inclusive process that works with stakeholder groups and the public to collaboratively identify future opportunities and constraints to address how future growth will affect the quality and level of municipal services and infrastructure in a particular region or subregion. The MSR process and components should foster and continually maintain a high-level vision for the MSRs that is consistent with the established guiding principles:

- MSRs should be **future-oriented** studies that address future growth and municipal service and infrastructure needs and opportunities over the next 15 to 20 years.
- MSRs should be **valuable to the stakeholders and the public as the ultimate end-users** of the studies.
- MSRs should be conducted through an **open and inclusive process**.

Key Components of the Prototype MSR Process

1. Establish stakeholder working groups to provide input and assistance to LAFCO for the identification of:
 - Key municipal services and issues within the region or subregion for review and study in the MSR



- Data sources and needs for the development of a common base of information about growth and municipal service and infrastructure needs
 - Existing studies, programs, and policies already in place that are of value to the stakeholders
2. Compile and establish a common base of information and data that are understood to influence how future decisions are made about the key municipal services and issues identified in the region or subregion, including, but not limited to:
- Demographics and population projections
 - Land use and transportation plans
 - Current levels of service
 - Infrastructure needs and capacities
 - Facilities planning and capacities
3. Engage and provide outreach to the public through:
- Community workshops
 - Facilitated focus groups
 - Existing community-based organizations (e.g., homeowners associations, chambers of commerce, etc.)
 - Media (e.g., LAFCO website, newsletters, press releases, etc.)
4. Required outputs:
- Nine MSR determinations required by Government Code Section 56430
 - Determinations on sphere of influence updates
5. Other desired outcomes:
- Raising awareness within government and among the stakeholders and the public
 - Identifying opportunities for cooperation, coordination, and collaboration
 - Acknowledging existing programs and policies already in place and building on existing successes and opportunities for success



Phase Three – Evaluation of Prototype MSR and Revision of MSR Process

Upon completion of the Prototype MSR, LAFCO will revisit the MSR process in Phase Three and evaluate the successes and shortcomings of that process based on a set of defined evaluative criteria. The criteria will be consistent with each of the MSR guiding principles and will generally ask “What worked?” and “What didn’t work?” in light of those guiding principles. Based on the findings, analysis, and conclusions from that evaluative process, the procedural steps and components of the MSR process will be revised and refined before reentering the process for the other designated MSR regions and subregions.

Phase Four – Implementation of Final MSR Process

Following the revision and refinement of the MSR process, LAFCO will implement and conduct MSRs for each of the designated MSR regions and subregions as prescribed by the final process. The MSR regions and subregions will be conducted in order of priority as established by the Commission. Staff anticipates that each of the MSRs will require an average of one full year to complete. A programmatic process for those MSRs could then be established and implemented concurrent with LAFCO’s annual budget cycle, allowing the Commission the flexibility and ability to budget for each individual MSR as deemed appropriate.

TIER TWO: STAKEHOLDER-INITIATED AND FUNDED STUDIES

At the conclusion of each Tier One MSR, the Commission will make nine required determinations, update spheres of influence, and make high-level recommendations to the stakeholders within each region or subregion on further, more in-depth studies of the municipal service and infrastructure needs of that region or subregion. These Tier Two MSR studies will be stakeholder-driven efforts initiated and funded by the stakeholders themselves.

Conclusion

The goals, objectives, and comprehensive process outlined and described above proposes an innovative and creative approach to conducting municipal service reviews in Orange County that seeks to create future-oriented value for Orange County’s local governments and citizens through these new regional studies. LAFCO staff believes that through the proposed strategic, programmatic approach to MSRs, new discussions, new information, and new opportunities for collaboration will be discovered that will help Orange County’s decision-makers make better decisions about the future growth and municipal service and infrastructure needs of Orange County.

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